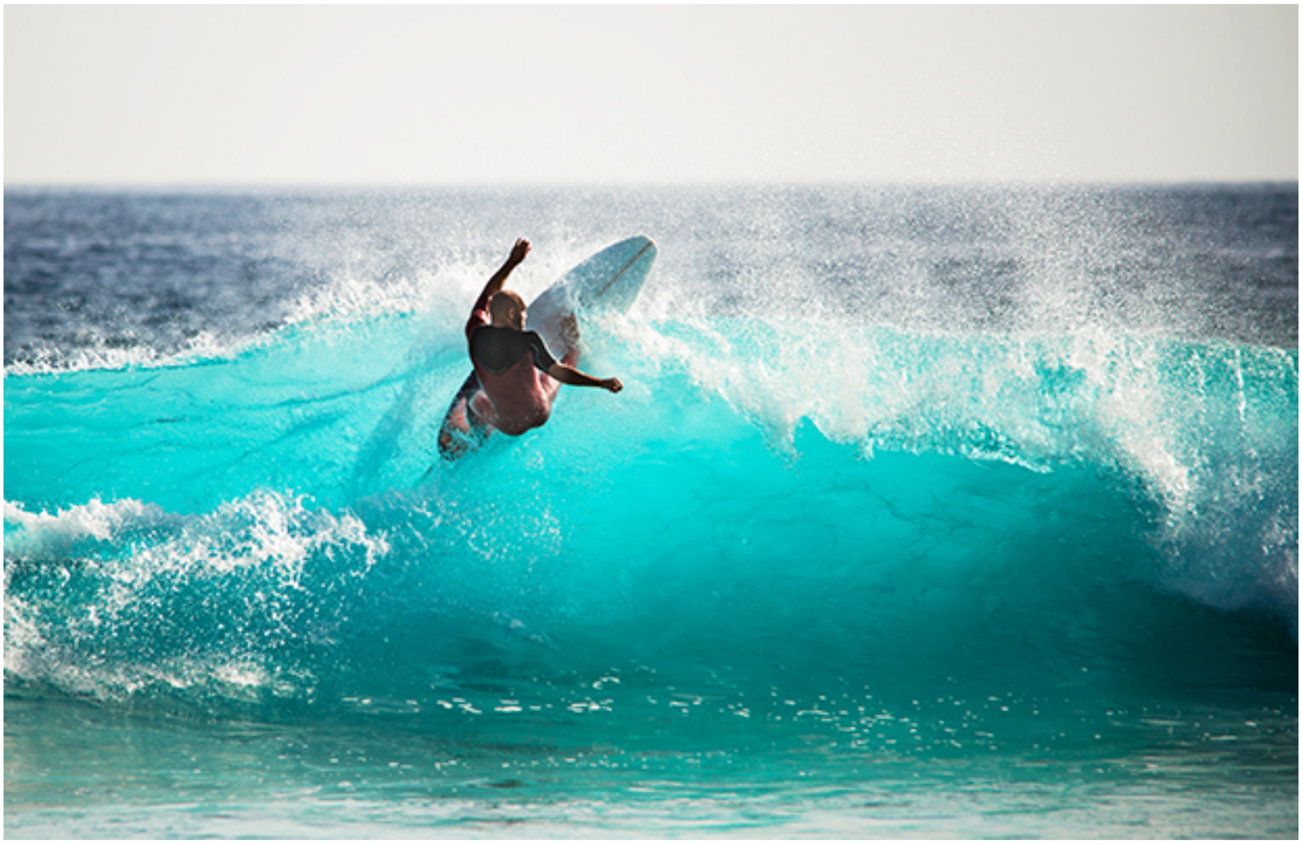
Riding a wave of opportunity



A convergence of factors has prompted more US life and annuity insurers to either sell books of business or seek reinsurance arrangements that give them finality on business they no longer want—and that represents an opportunity for ambitious companies seeking growth in that space.

One of these is Bermuda-based Kuvare Life Re (KLR), a subsidiary of Kuvare Holdings, which has completed a number of big deals recently, driven by these forces.

The deals included assuming approximately $850 million of fixed annuity reserves in a reinsurance transaction with an unnamed international insurance company in December 2017.

This deal was the biggest and the latest completed by the reinsurer, which was formed in October 2016 while simultaneously taking on a portfolio of fixed annuity products from a highly rated insurance company and the group acquiring US-based Guaranty Income Life Insurance Company (GILICO).

Market forces combine

Kuvare Holdings, headquartered in Chicago, focuses on life and annuity solutions in the middle market. Founded in 2015, it is backed by a consortium of long-term capital firms including Altamont Capital Partners, Makena Capital Management and Access Holdings, which collectively manage more than $20 billion. Including the KLR reinsurance transaction and the acquisition of United Life Insurance Company, Kuvare has pro forma consolidated assets of over $3.5 billion.

The company operates on both the insurance and the reinsurance sides. On the primary side, its last big deal was in September 2017 when Kuvare Holdings agreed to purchase United Life Insurance Company, the life insurance subsidiary of United Fire Group. That deal followed its acquisition of GILICO in Baton Rouge, Louisiana.

Dhiren Jhaveri, the chief executive of Kuvare Holdings, says the company intends to continue to seek growth on both sides of the business. "On the reinsurance side we are seeing many more opportunities in North America as companies want to restructure and streamline their operations and shed business lines—that is an opportunity for us to provide a solution and allows them to free up capital to grow.

“Equally, on the insurance side we are building out a full service life and annuity insurance business to sell products in the US.”

Jhaveri identifies a number of reasons this market is ripe for acquisitions at the moment.

The first, he says, is that there has been a reemphasis on the importance of growth for insurers in this sector, driven partly by changes in the way investors are valuing them. “They are rewarding growth more than they were,” he says.

He also notes that one side issue in this trend has been a rise in the US of activist shareholders who have targeted some large insurers pushing them to grow at a faster rate and shed certain business lines. This mentality has had a knock-on effect throughout the sector.

Second, and partly because of changes in company valuations, sellers have become more realistic in what they want for businesses. “There is a better alignment between the valuations of buyers and sellers—more of an equilibrium—and that means more deals are being done,” he says.

Third, he says, expectations that interest rates will increase has encouraged insurers to move back towards fixed income products and instilled the belief that they will be able to get a better return from their investments in the future. This has encouraged them to write more business but some want to free up capital to deploy into seeking new business—something that shedding older books of business can achieve.

Finally, Jhaveri says, European Solvency II has also had an effect on the North American market. Some of the bigger players are regulated in Europe and one of the effects of Solvency II has been to encourage insurers to shed books of business in run-off.

"It has created a mismatch in some areas in terms of the amount of capital you need to hold. Doing this frees up capital."

Rapid growth

All these factors have combined to send Kuvare Holdings on a sharp growth trajectory. On the insurance side, Jhaveri says, the growth has reached between 50 and 60 percent. Much of this is organic but the company is planning on a mixture of organic growth and acquisitions.

"We like organic growth; we want to add scale," he says. "The underlying market is growing by around 10 percent and we are continually forming relationships with agents, brokers and banks to distribute our product. We are also launching a new fixed index annuity product that is aimed at middle income consumers.

"We are also looking for acquisitions to complement what we are doing and the market is ripe for that too," he says. "We think 2018 should be a strong year."

On the reinsurance side, Bermuda has been the beneficiary. Kuvare now has more than $1.5 billion of assets under management in Bermuda and is managed by a team of six across the group. He says the company picked Bermuda mainly because of its reputation, deep talent pool and robust regulatory regime.

“We looked at different jurisdictions but our clients in the US preferred Bermuda. They liked the quality of the regulatory regime and the alignment with the NAIC and European regulatory structures. Plus it is quicker to travel to for us than some other domiciles.”